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Subject: The Economist | The Cyprus bail-out: This septic isle

The Economist

The Cyprus bail-out

This septic isle

Being tough on bank creditors could prove costly for northern European taxpayers

THE second deal to bail out Cyprus was much better than the first. For one thing, there was actually a deal: with the €10 billion ($13 billion) loan the prospect of the euro zone's first exit has receded. An agreement among euro-zone finance ministers to wind up Laiki Bank, Cyprus's second-biggest bank, and restructure Bank of Cyprus, the largest lender on the island, undid the worst elements of the initial botched agreement. Savers with accounts below the €100,000 deposit-guarantee threshold will be spared. Losses will hit creditors of weak banks in line with the normal hierarchy: shareholders and junior bondholders first, followed by senior bondholders and uninsured depositors.

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